PG&E's Comments on
CPA's "Energy Resource Investment Plan - 2003"
January 17, 2003 Investment Plan
February 5, 2003

1. The CPA's investment plan should minimize CPA investments and financing costs by taking into account the resources that are already installed or are under construction in California. In addition, the CPA should defer to the resource plans and reliability expertise of California utilities and other key market participants and regulators, such as the ISO, FERC and CPUC. Page 5 of CPA's investment report indicates 5,795 MW's are already operational or under construction but do not have contracts. The use of existing resources to meet required reserve margins should be encouraged consistent with existing resource plans and reliability standards, instead of stranding these assets. For example, among the barriers to contracts with existing resources is the recently CPUC-adopted standards of conduct #6 (contract changes can be made by the CPUC) and #7 (CPUC staff to have access to counter party confidential information) adopted in D. 02-12-074. At a minimum, the CPA should actively support the elimination of regulatory barriers to investment and financing to enable utilities to contract with existing and new resources, before considering supplemental means of financing for such resources.

2. The CPA's actions in administering its financial authority should take into account which LSE's customers benefit and ultimately pay the costs of projects considered for CPA financing.

3. The CPA should use its financial resources after reviewing other obstacles to efficient development of new resources, such as working with other policymakers and regulators to redesign the market to ensure continuation of must-offer requirements, and in doing so reduce the concern over withholding of existing resources.

4. Programs/contracts selected by the CPA must meet the needs of LSE's portfolio profile and be cost-effective. Prior to considering or adopting any investment plan, the CPA should develop, offer for public comment and adopt sound and objective methodology/criteria to select the demand or supply side programs or projects to sponsor or finance. Any decision to sponsor a project to fill the needs of the LSEs should include a finding that completion of the project will not strand either DWR contract or existing IOU resources.

5. Out of state imports should be counted in any reserve margin calculation used by the CPA. Currently, the CPA only includes out of state imports in the reserve margin calculation if the unit MW's are "tied to a contract". However, California is not an island but it is interconnected with the WECC electric grid, and therefore out of state imports should be considered.

6. The CPA's reserve rulemaking is flawed because it ignores completely the fact that the reliability benefits of reserves can only be achieved if every LSE in a region is required to maintain the same level of reserves. Otherwise, those who are not

required to maintain that reserve level get a free ride from others who may be required to maintain higher reserves.

7. The CPA's Investment Plan appears to target meeting demand through Summer 2005. Was a benefit cost analysis with 17% reserve margin done for those years? In the January 17th report to establish the reserve margin requirement, the requirement was to be reviewed annually. How can the utilities plan their portfolios if the reserve margin can change annually? It is also unclear as to what resources will be eligible to count towards reserves in the ISO and Standard Market Design forums.

8. How will the CPA reserve margin be coordinated with the requirements that the FERC sponsored Resource Adequacy Working Group might establish, as well as other criteria developed by other policymakers and regulators? CPA's report on Page 21 of the "Establishment of the Target Reserve Level" states:

> "… San Diego continues to urge inter-agency and inter-jurisdictional coordination. We agree and are involved in all relevant proceedings as noted above. The Power Authority still finds that it must act to further needed reserves by completing this rulemaking with all relevant specific targets and recommendations rather than wait for the outcome of other proceedings."

   It is not appropriate, at this time, for PG&E to use the 17% reserve margin target as the starting point for it's long term plan until resource adequacy is resolved at a regional level and the eligibility criteria for a resource to qualify as a reserve are determined. The interests of the ratepayers will be better served with this approach.

9. PG&E again emphasizes the need for CPA, CAISO, CEC, CPUC, WECC, all LSE's and FERC's Resource Adequacy Working Group to work together to develop the reserve margin standard. At the January 28th California Senate Energy Committee meeting on supply adequacy, the CEC stated "demand and supply for the State looks promising this summer, and supplies should continue to remain positive through the year 2005." Contrarily, the CPA apparently has indicated a supply problem since reserve levels were only 10% in 2004 and 7% in 2005. The CPA should coordinate its reserve margin activities with other entities, and defer to the expertise of those other entities where appropriate.